COIN

California Organized Investment Network

2007 COIN DATA CALL KEY FINDINGS

INSURER COMMUNITY DEVELOPMENT INVESTMENTS
BENEFITING CALIFORNIA'S LOW-TO-MODERATE INCOME COMMUNITIES

MARCH 2008

CALIFORNIA DEPARTMENT OF INSURANCE
STEVE POIZNER, INSURANCE COMMISSIONER

What is COIN?

COIN is a first-in-the-nation collaborative effort between the Department of Insurance, community development organizations and advocates, the insurance industry and members of the California Legislature. COIN's mission is to provide leadership in increasing the level of insurance industry capital in safe and sound investments providing fair returns to investors and social benefit to underserved communities.

Key Findings – 2007 COIN Data Call

Insurer Community Development Investments Benefiting California's Low-to-Moderate Income (LMI) Communities

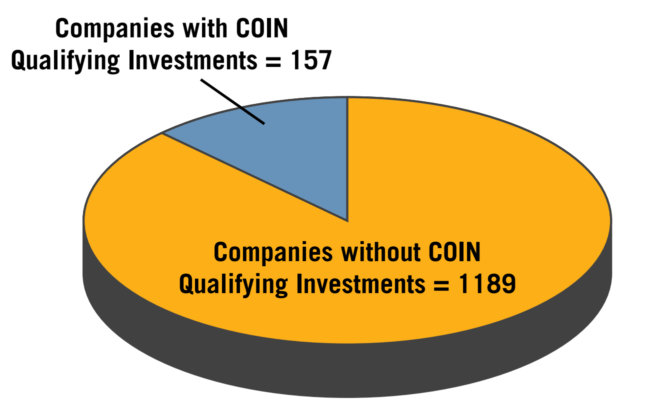
Pursuant to AB 925 (Chapter 456/2006, Ridley-Thomas), insurers admitted to do business in California were required to report the community development investments they made in California during the 2005 and 2006 calendar years to the Department of Insurance by May 31, 2007. In 2005, a voluntary, first-ever data call for California community development investments requested insurers to report qualifying investments outstanding on December 31, 2004, and invited them to report such investments made in prior years that were no longer outstanding.

The results of the 2005 and 2007 data calls together now provide us with a good record of the community development investments made by insurers in California for the last 10 calendar years (CY).

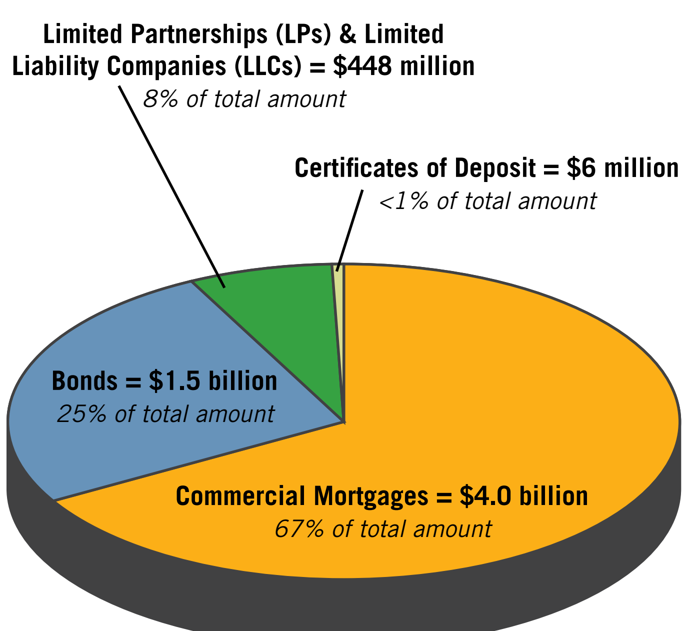
The Response from the Insurance Industry

The Data Call was sent to 1346 companies: 1052 responded; 294 did not. Those responding represent 78% of all companies and write 92% of the insurance business in California. However, only 157 companies (12% of all companies doing business in California) reported qualifying investments. These companies write 55% of the California insurance business. The remaining 895 respondents reported no qualifying investments. Added to the 294 companies that did not respond, there are 1189 companies with 45% of the California business reporting no qualifying investments in CY 2005 and 2006.

1346 CA Insurance Companies

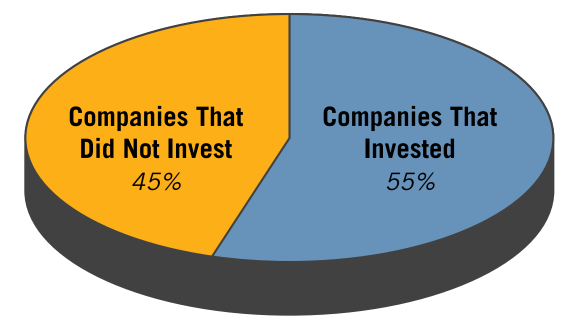


$5.9 Billion Qualifying Investments by Type of Investment



All together, insurers reported over 2700 investments during 2005 and 2006 totaling close to $8.1 billion that insurers thought might qualify. After careful review, COIN determined that **1733 investments totaling $5.9 billion** meet the definitions in the Data Call for California community development investments. This is an increase of $2.7 billion over the previous two-year period and equals 1.9% of the California share of total CY 2005 and 2006 investments made by all companies. For 2006 alone, $3.1 billion in qualifying investments is far and away the highest annual total since the inception of the program. This amount equals 2.5% of the 2006 California premium total of $125 billion.

Insurance Company Community Investment Participation by CA Market Share



Life Companies

2006 California Premiums	$64.1 billion
Total Investments Made in CY 2005 & 2006	$2.1 **trillion**

91 companies out of 478 (with 68% of the market share for Life companies) reported making **1346** qualifying investments totaling **$4.8 billion**, which equals 2.5% of the California share of total CY 2005 and 2006 investments made by all Life companies.

Given the differences in the nature of their business, some forms of investments are better suited to the asset/liability needs, and thus are more typical of Life companies than Property and Casualty companies. Thus, Life companies made virtually all of the $4 billion in qualifying commercial mortgages, which comprised 82% of the Life company total qualifying investments. These represent commercial mortgages made in Low-to-Moderate Income (LMI) census tracts in California.

Property and Casualty (P&C) Companies

2006 California Premiums	$57.6 billion
Total Investments Made in CY 2005 & 2006	$764.0 billion

61 companies out of 797 (with 44% of the market share for P&C companies) made **370** qualifying investments totaling **$1.0 billion**, which equals 1% of the California share of total CY 2005 and 2006 investments made by all P&C companies.

$921 million of their total qualifying investments were in the form of bonds, which comprised 90% of the P&C company total qualifying investments.

Title Companies

2006 California Premiums	$2.7 billion
Total Investments Made in CY 2005 & 2006	$6.4 billion

Only **two** out of 23 Title companies doing business in California (with just a 4% market share for Title companies) reported qualifying investments – two investments totaling **$215,000**. This equals 0.02% of the California share of total CY 2005 and 2006 investments made by all Title companies.

In addition, a holding company that owns three title insurers (with a combined 37% of the state title business market share) made two qualifying investments totaling $10 million. These were not shown on the books of the insurance companies and, therefore, do not qualify as reportable.

Fraternal Companies

These 48 mostly small companies serving fraternal organizations have $358 million in total California premiums. Generally, their small size and exclusive focus on service to their membership make it more difficult for them to participate in California community development investing. Nevertheless, three companies collectively made $14 million in qualifying investments.

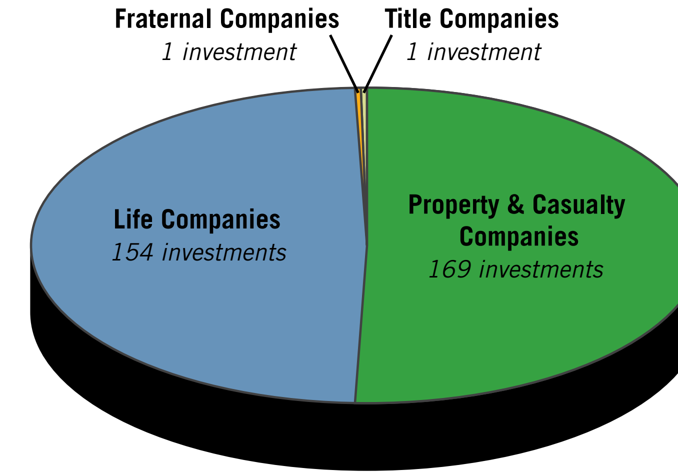
Focus on High Impact Investments — They can Make a Significant Difference

Within the arena of community development investing, there are some investments that merit additional recognition. These community development investments typically involve a non-profit or community development organization and/or meet a special or unmet capital need for low-to-moderate income families and communities. With the enactment of AB 925 in September of 2006, Insurance Code Section 926.2 (b) now provides:

"Insurers that make investments that are innovative, responsive to community needs, not routinely provided by insurers, or have a high degree of positive impact on the economic welfare of low-income or moderate-income individuals, families, or communities in urban or rural California shall be identified."

Insurers made 325 high impact investments totaling $466 million during CY 2005 and 2006. These comprised 19% of the total number of investments, and 8% of the qualifying dollars reported. It should be noted that the industry made most of these investments <u>before</u> high impact investing was defined in AB925. Although the COIN Program has historically encouraged insurers to "make a difference" with their community investments, this is the first time insurers were asked to uniquely identify them. Many companies learned about the concept of high impact investing for the first time in spring 2007 when the instructions were issued for the 2007 Data Call. Therefore, we view this as base line data, and hope that in the future insurers will make this an important component of their California community development investing.

Number of High Impact Investments by Line of Business



High Impact Investments by Line of Business

Life Companies	154 investments totaling $335 million
Property and Casualty Companies	169 investments totaling $131 million
Title Companies	1 investment totaling $100,000
Fraternal Companies	1 investment totaling $200,000

Types of high impact investments made (see page 10) included Low Income Housing Tax Credit (LIHTC) partnerships, which are critical to making rental housing affordable to low-income families. LIHTCs are complex long-term investments and were mostly made by Life companies. Other types of high impact investments were partnerships in special community development funds with "double bottom line" goals of financial and social benefit returns. Both Life and P&C companies made these investments. And primarily P&C companies invested in certificates of deposit in special community development banks and credit unions with a primary mission of serving the needs of low-income families and communities.

When assessing the extent of the impact on communities served, use of the funds and the number of investments can be as important as the dollar amount. Relatively small dollar size investments can have high impact because they are often leveraged by being relent multiple times (revolving funds), or used as seed money filling unmet capital needs that get projects started and later attract significantly larger investments. Other small size investments can provide significant benefit by funding alternatives to high-cost check-cashing services and payday lenders that have moved into low-income neighborhoods.

Most of the high impact investments reported for CY 2005 and 2006 ($211 million - 66% of the total number and 45% of the total dollar amount) were investments made known to insurers via COIN Bulletins developed with community organizations and posted on the COIN Web site and/or investments made by member companies through Impact Community Capital, LLC.

A Comparison to Community Reinvestment Act Investing by Banks

The definition for community development investments is found in AB 925 and closely parallels the definition for community reinvestment found in the federal Community Reinvestment Act (CRA) that applies to banks and other federally regulated depository institutions. We believe that the $5.9 billion in insurer investments reported in the 2007 Data Call would qualify under the CRA definitions for community reinvestment.

CRA actually includes three tests: a lending, investment, and a services test. Some community advocates compare insurer community investments to multibillion dollar CRA commitments made by banks – this is not a valid comparison. Although we applaud these bank commitments, they mostly represent billions in new CRA loans. Since banks are in the business of making loans, assessing how well insurers are doing in providing insurance to underserved communities might be a more analogous comparison to the CRA lending test. The COIN-qualifying investments made by insurers can be most closely compared to the CRA investment test. The description in AB925 for high impact investments meriting special recognition mirrors criteria used under CRA that are key to banks receiving outstanding CRA ratings for the investment test.

Late Responses to the 2005 Data Call Mandated by AB 925

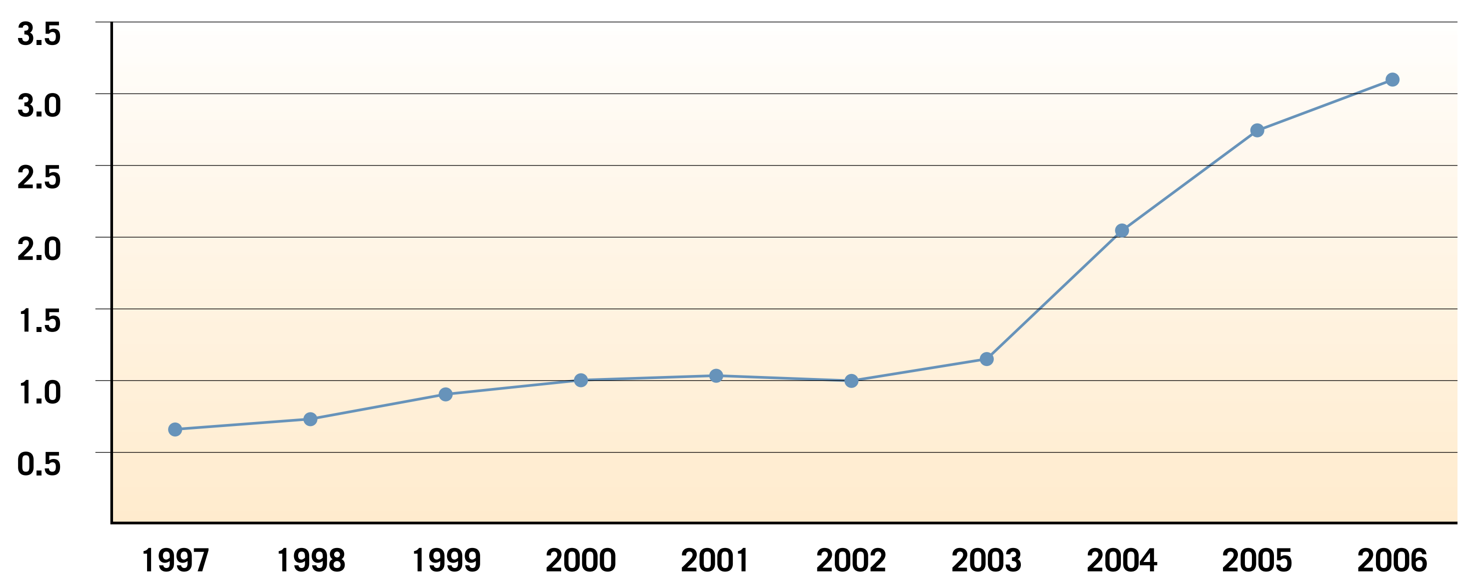
In addition to requiring reporting in 2007 and 2009 of new California community development investments made during the prior two CYs, AB 925 required companies who did not report voluntarily in 2005 to report the community investments they made through 2004 by February 28, 2007. This resulted in an additional 189 companies reporting 1530 investments totaling $1.5 billion. However, only 38 investments from 16 companies totaling $78 million qualified. We conclude from this that while the mandate was effective in getting companies who ignored the voluntary data call to respond, many of these companies failed to follow or understand the instructions for what was reportable.

The Value of Periodic Data Calls

From 1997 through 2004, reporting was on an ad hoc basis. The 2005 data call was the first comprehensive request for information from all insurers. It was followed in 2007 by the first report mandated by California law. The value of a consistent, periodic reporting mechanism has now been demonstrated.

Since the inception of the COIN program in 1997 (except for a decrease in 2002) the total dollar amount of California community development investments has increased each year.

Dollar Amount of Insurer CA Community Development Investments *(in billions)*

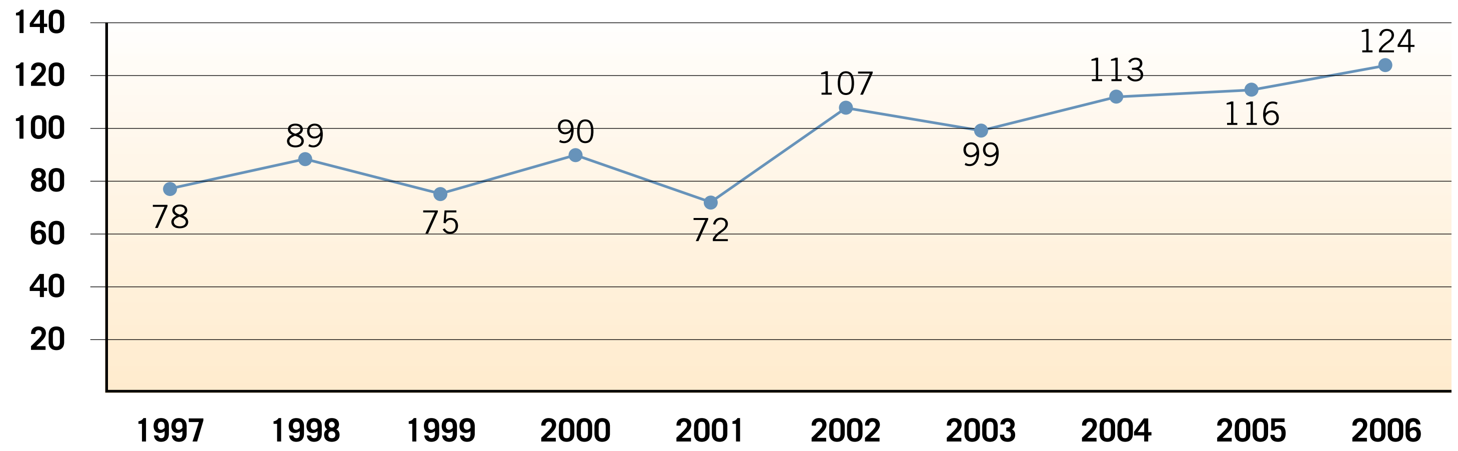


The Value of Periodic Data Calls

To date, $14 billion in California community development investments have been made and reported, with $5.8 billion being reported just for CYs 2005 and 2006. Given the fact that insurers admitted to do business in California made close to $3 trillion in new investments during the 2005 and 2006 CYs, there is clearly capacity for even larger growth in total California community development investing in the future.

Community development investing is good business. It offers tremendous opportunities for less prosperous families while creating positive business relationships with the fastest growing demographic markets in the nation. It is an integral part of a smart business strategy for insurers to succeed in California's diverse marketplace.

Number of Companies Making CA Community Development Investments



Overall, the number of companies with qualifying investments each calendar year has been rising from 78 in 1997 to 124 in 2006, representing an increase of 59%.

Improvements are also evident between the 2005 and 2007 data calls:

- The response rate increased from 69% to 78%.
- Correctly identifying community development investments increased as shown by the percent of reported investments qualifying going from 56% to 76%.
- Insurer investment participation increased from 52% to 55% of the California market share, while non-participation decreased from 48% to 45% of the state market share.

Our experience has shown that with periodic data calls, the number of companies investing, the amount of the investments, and understanding of and focus on the program all increase. Responses to a questionnaire the Commissioner sent to insurer CEOs in April 2007, comments received in the course of the data calls, and the fact that 45% of the industry by California market share has failed to participate are all evidence of the need for continued education and encouragement. The information provided to insurers throughout the data call process helps educate them, and publicizing the results helps recognize the industry's good work while encouraging non-participants to join them in bringing much needed capital to economically disadvantaged California families and communities.

Analysis of Investments Reported for Calendar Years 2005 & 2006 That Benefit California Low-to-Moderate Income (LMI) Communities (As Reported by Insurers in Response to COIN CIS2007 Data Call)

(Pursuant to AB925, Chapter 456, Statutes of 2006, Ridley-Thomas)

(amounts in millions)

Types of Investments	2005 COIN Qualified Investments	2006 COIN Qualified Investments	Total COIN Qualified Investments	%	High Impact Investments*	%	Total Reported Investments NOT Qualified	Total Investments Reported
Low Income Housing Tax Credits (LP/LLCs)	$ 109	$ 128	$ 237	4%	$ 237	51%	$ 4	$ 242
Other Limited Partnerships and LLCs	136	75	211	4%	159	34%	76	287
Bonds**	573	884	**1457	25%	63	14%	1,029	2,486
Certificates of Deposit & Other Depository Accounts	3	3	6	0%	5	1%	111	117
Common and Preferred Stock	-	1	2	0%	2	0%	196	198
Commercial Mortgages in LMI Census Tracts	1,923	2,031	3,955	67%	-	0%	845	4,800
Insurer Owned Real Estate	-	-	-	0%	-	0%	10	10
Residential Mortgages	-	-	-	0%	-	0%	-	-
Total Reported Investments	**$ 2,745**	**$ 3,123**	**$ 5,868**	**100%**	**$ 466**	**100%**	**$ 2,272**	**$ 8,140**
Number of Investments	*****1098**	**635**	**1,733**		**325**		**967**	**2,700**

* High Impact Investments pursuant to CA Insurance Code Section 926.2 (b) are defined as "investments that are innovative, responsive to community needs, not routinely provided by insurers, or have a high degree of positive impact on the economic welfare of low-income or moderate-income individuals, families, or communities in urban or rural California."

** Includes $1.1 Billion in Community Development Infrastructure Investments, defined in AB 925 as "California public debt (including all debt issued by the State of California or a California State or local government agency) where all or a portion of the debt has as its primary purpose community development for, or that directly benefits, low-income or moderate-income communities and is consistent with subdivision (b) [which defines Community Development Investment]."

*** The dollar amount of investments is greater in 2006 than in 2005, however, the number of investments is significantly lower. This resulted from one insurer group making over 500 relatively small commercial mortgage investments in 2005 only.

Notes:
- Insurers submitted and COIN staff reviewed 2700 separate investments.
- Amounts may not add due to rounding.
- LP means limited partnership; LLC means limited liability company.

CALIFORNIA DEPARTMENT OF INSURANCE
California Organized Investment Network (COIN)
300 Capitol Mall, Suite 1600 · Sacramento, CA 95814
www.insurance.ca.gov